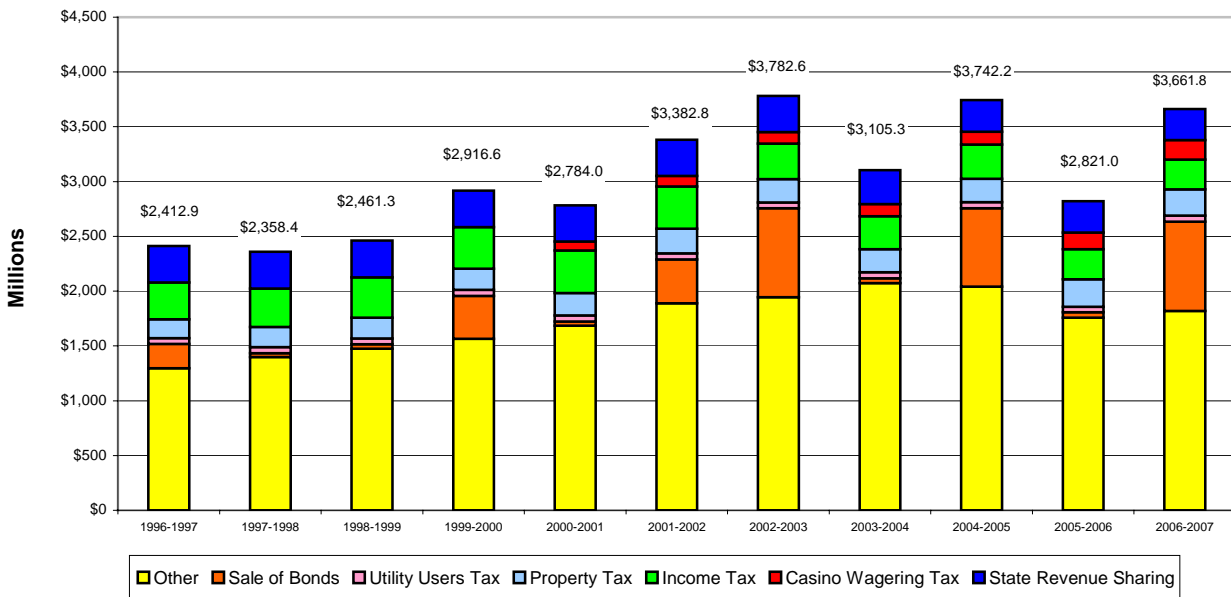


**CITY OF DETROIT
MAJOR REVENUES
FOR FISCAL YEAR 1996-1997 THROUGH FISCAL YEAR 2006-2007**

The following chart and schedule compares the total budgeted revenues and major revenue sources over ten fiscal years from 1996-1997 through 2005-2006, and total revenues and major revenues sources in the Mayor's 2006-2007 Proposed Budget.



In Millions								
Fiscal Year	Property Tax	Income Tax	Utility Users Tax	State Revenue Sharing	Casino Wagering Tax	Sale of Bonds	Other	Total
1996-1997	\$ 171.2	\$ 337.6	\$ 54.7	\$ 332.3	-	\$ 219.3	\$ 1,297.8	\$ 2,412.9
1997-1998	182.9	351.5	57.4	333.9	-	34.3	1,398.4	2,358.4
1998-1999	188.1	368.0	54.8	335.8	-	39.1	1,475.5	2,461.3
1999-2000	193.5	379.9	54.6	332.0	-	390.0	1,566.6	2,916.6
2000-2001	205.7	387.4	54.6	332.0	\$ 80.7	40.0	1,683.6	2,784.0
2001-2002	225.5	384.8	54.6	332.0	95.8	400.0	1,890.1	3,382.8
2002-2003	211.8	323.5	54.6	332.0	105.0	810.0	1,945.7	3,782.6
2003-2004	212.4	300.4	55.0	310.8	110.0	42.0	2,074.7	3,105.3
2004-2005	213.1	311.0	55.0	287.7	117.6	717.4	2,040.4	3,742.2
2005-2006	249.6	275.1	49.7	285.1	153.0	50.4	1,758.0	2,821.0
2006-2007 (A)	237.3	271.4	56.0	284.2	178.3	815.0	1,819.6	3,661.8

(A) Mayor's 2006-2007 Proposed Budget

The sections that follow include an analysis of the reasonableness of the budgeted amounts of major revenues in the Mayor's 2006-2007 Proposed Budget and a comparison to major revenues in the fiscal year 2005-2006 budget including revenues for property tax, income tax, utility users tax, state revenue sharing, casino wagering tax, and bond sales.

STATE REVENUE SHARING

State Revenue Sharing is the process by which a portion of certain tax revenues imposed and collected by the State of Michigan are distributed to local units of government, including municipalities, as provided by State law. Currently, the State shares a portion of sales tax revenue with local governments.

State Revenue Sharing revenues contained in the Mayor's 2006-2007 Proposed Budget are \$1.0 million less than the amount budgeted for fiscal year 2005-2006. The State Revenue Sharing payments included in the Mayor's 2006-2007 Proposed Budget are compared to the 2005-2006 Budget in the following schedule:

In Millions			
	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
State Revenue Sharing:			
State Sales Tax – Constitutional Portion	\$ 66.3	\$ 67.3	\$ (1.0)
State Sales Tax – Statutory Portion	217.8	217.8	0.0
Total State Revenue Sharing to City of Detroit	\$ 284.1	\$ 285.1	\$ (1.0)
Detroit Public Library	(1.6)	(1.6)	(0.0)
City's Net State Revenue Sharing (A)	<u>\$ 282.5</u>	<u>\$ 283.5</u>	<u>\$ (1.0)</u>

(A) The City's Net Revenue Sharing includes approximately \$60,000 to be paid to the Downtown Development Authority.

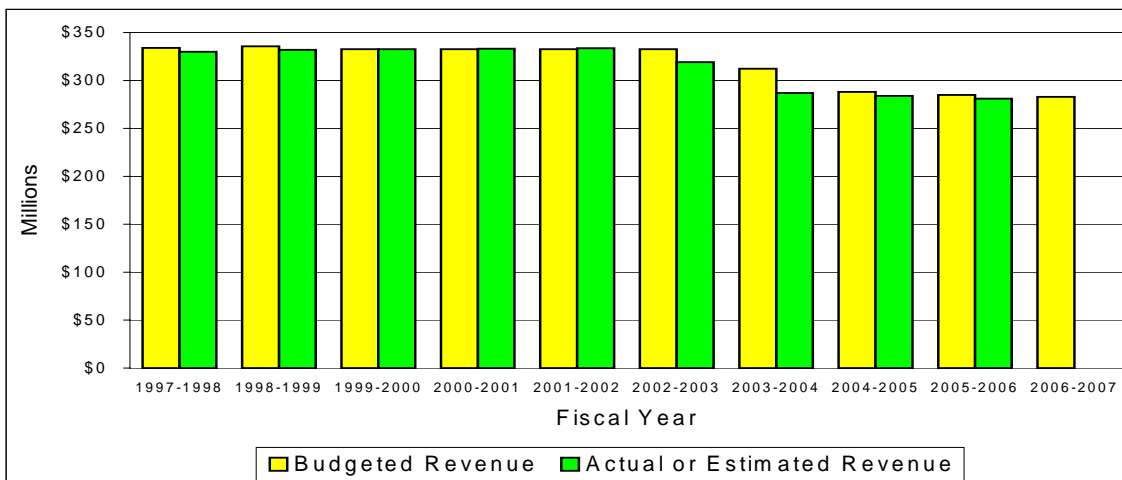
The following schedule compares the City's Net State Revenue Sharing, budget to actual, beginning with the 1997-1998 fiscal year:

Dollars In Millions						
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1997-1998	\$ 333.9	\$ 330.1	\$ (3.8)	(1.1) %	\$ 1.6	0.5 %
1998-1999	335.8	332.0	(3.8)	(1.1)	1.9	0.6
1999-2000	332.7	332.7	0.0	0.0	0.7	0.2
2000-2001	332.7	333.3	0.6	0.2	0.6	0.2
2001-2002	332.7	333.8	1.1	0.3	0.5	0.2
2002-2003 (A)	332.7	319.1	(13.6)	(4.1)	(14.7)	(4.4)
2003-2004 (A)	311.5	286.5	(25.0)	(8.0)	(32.6)	(10.2)
2004-2005	286.1	282.9	(3.2)	(1.1)	(3.6)	(1.3)
2005-2006 (B)	283.5	280.8	(2.7)	(1.0)	(2.1)	(0.8)
2006-2007	282.5	N/A	N/A	N/A	N/A	N/A

(A) The large deviations between budget and actual amounts for fiscal years 2002-2003 and 2003-2004 were due to the Governor's two executive orders cutting State Revenue Sharing after the State budget had been enacted.

(B) The fiscal year 2005-2006 estimated actual revenues are taken from the Mayor's 2006-2007 Proposed Budget. The Budget Department has revised the estimate to reflect the \$2.7 million reduction in the State's projection.

The following chart compares budgeted State Revenue Sharing to actual State Revenue Sharing for fiscal years 1997-1998 to 2004-2005, the budgeted State Revenue Sharing to the estimated State Revenue Sharing for fiscal year 2005-2006, and shows the budgeted State Revenue Sharing in the Mayor's 2006-2007 Proposed Budget.



State of Michigan Legislation and Projection

In 1998, the Glenn Steil State Revenue Sharing Act of 1971 (State Revenue Sharing Act) was amended to change the method for determining State Revenue Sharing payment amounts. In accordance with the State Revenue Sharing Act, the City of Detroit was to receive a total of \$333.9 million in State Revenue Sharing payments each year, from State fiscal year 1998-1999 to State fiscal year 2005-2006, and an annualized amount for the nine-month period from October 1, 2006 to June 30, 2007. The State of Michigan's fiscal year starts in October and ends in September. There was an understanding that Detroit would be exempt from changes in revenue sharing in return for reducing its income tax rate, although the State Revenue Sharing legislation and income tax rate reduction legislation were not linked.

In December 2002 and again in December 2003, executive orders were issued by the Governor, which reduced State Revenue Sharing payments for all cities including Detroit for the State's 2002-2003 and 2003-2004 fiscal years. In previous years State Revenue Sharing was seen as an assured revenue stream. Since fiscal year 2002-2003 this has not been the case. The Governor has proposed that a budget equal to the amount of fiscal year 2005-2006 payments for State Revenue Sharing be included in the State's 2006-2007 Executive Budget.

The Governor's 2006-2007 Executive Budget recommends total State Revenue Sharing payments to Detroit in the amount of \$284.1 million, a \$1.0 million reduction from the \$285.1 million the City budgeted for fiscal year 2005-2006. The total payment of \$284.1 million for State Revenue Sharing includes a portion determined by the State Constitution (constitutional) and a portion determined by the Governor and the State legislature (statutory). The constitutional portion of State Revenue Sharing payments is based on the 2000 City of Detroit census figure adjusted for the deduction of 50 percent of the institutional population¹ as required in the State Revenue Sharing Act.

¹ The institutional population is the population residing in correctional institutions, detention homes, and training schools for juvenile delinquents; homes for the elderly (for example, nursing homes and convalescent homes); homes for dependent and neglected children; homes and schools for the mentally or physically handicapped; homes for unwed mothers; psychiatric, tuberculosis, and chronic disease hospitals; and residential treatment centers.

The State Revenue Sharing Act also provides that the treasurer of any city, village, township, or county that collects money for another governmental authority or agency that levies property taxes shall pay an eligible authority its share of State revenue. Therefore, the City is required to pay \$1.6 million to the Detroit Public Library and \$60,000 to the Downtown Development Authority (DDA) from the \$284.1 million in State Revenue Sharing for the 2006-2007 State fiscal year. These amounts have decreased slightly from the previous year, proportionate to the overall decrease in State Revenue Sharing payments to the City.

City-to-City Comparison of Revenue Sharing Dollars

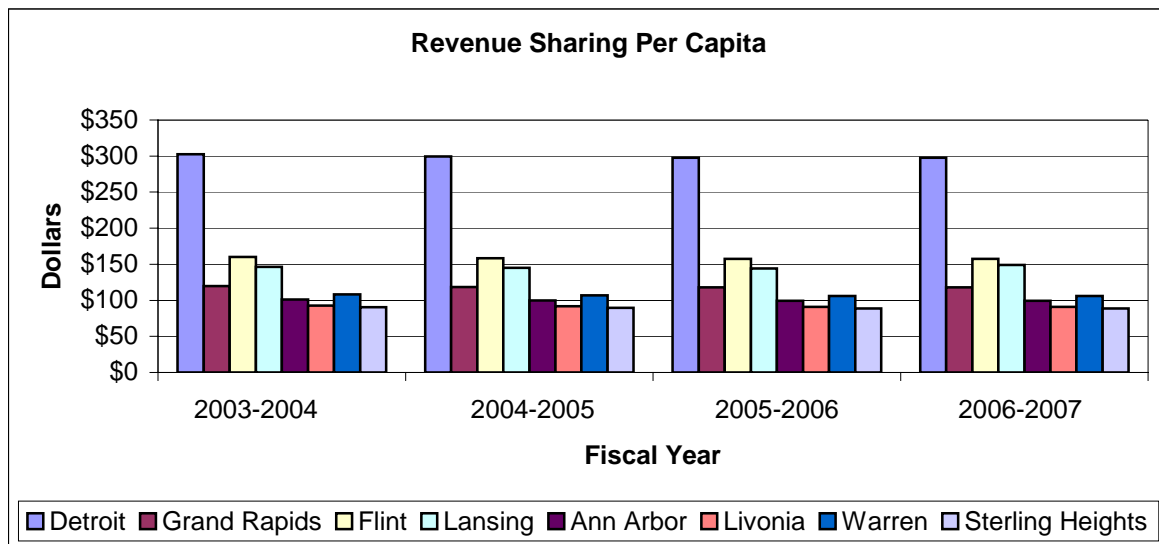
Since December 2002, when the first cuts were enacted, the amount all Michigan cities have received from the State through revenue sharing has dropped. However, one thing that has not changed significantly is the percentage of the State's total revenue sharing dollars the City receives. In fiscal year 2003-2004, Detroit received 22.0% of the State's total revenue sharing dollars. In fiscal year 2006-2007 it is estimated that Detroit will receive 25.4% of the State's total revenue sharing dollars.

The table below shows the percentage of the State's total revenue sharing dollars received by Detroit, Grand Rapids, Flint, Lansing, Ann Arbor, Livonia, Warren, and Sterling Heights for State of Michigan fiscal years 2003-2004 and 2004-2005 and the estimated percentage of revenue sharing the cities will receive in State fiscal years 2005-2006 and 2006-2007. It also shows the percentage of the State's total population residing in each of the cities.

City	Percent of Total Revenue Sharing				% Of State Population Per 2000 Census
	<u>2003-2004</u>	<u>2004-2005</u>	<u>Estimated 2005-2006</u>	<u>Proposed 2006-2007</u>	
Detroit	22.0%	25.5%	25.5%	25.4%	9.6%
Grand Rapids	1.8	2.1	2.1	2.1	2.0
Flint	1.5	1.8	1.8	1.8	1.3
Lansing	1.3	1.5	1.5	1.5	1.2
Ann Arbor	0.9	1.0	1.0	1.0	1.2
Livonia	0.7	0.8	0.8	0.8	1.0
Warren	1.1	1.3	1.3	1.3	1.4
Sterling Heights	0.9	1.0	1.0	1.0	1.3

On a per capita basis, Detroit received \$352 per resident prior to the reductions in revenue sharing. In State fiscal year 2006-2007, the Governor's Executive Budget calls for Detroit to receive \$300 per resident. Other cities receive much less than this. Flint, the city receiving the closest amount to Detroit, is budgeted to receive \$158 per resident. This is just over half the amount Detroit will receive per resident. Although the 1998 amendment to the State Revenue Sharing Act held Detroit fixed at \$333.9 million, it has been subsequently amended to implement reductions to all cities including Detroit.

The following chart and table show the per capita amount for each of the aforementioned cities received in State Revenue Sharing payments for State fiscal years 2003-2004 and 2004-2005, and the estimated amount for State fiscal years 2005-2006 and 2006-2007.



State Revenue Sharing Dollars Per Capita				
City	2003-2004	2004-2005	2005-2006 (Estimated)	2006-2007 (Proposed)
Detroit	\$ 302.74	\$ 299.44	\$ 297.53	\$ 297.53
Grand Rapids	119.93	118.62	117.82	117.82
Flint	160.28	158.54	157.52	157.52
Lansing	146.52	144.92	144.00	148.85
Ann Arbor	101.00	99.90	99.26	99.26
Livonia	92.68	91.67	91.09	91.09
Warren	108.09	106.91	106.23	106.23
Sterling Heights	90.38	89.40	88.83	88.83

Conclusion

The estimate for the fiscal year 2005-2006 State Revenue Sharing is reasonable because it has been adjusted to reflect the State's changed revenue estimate.

In our opinion, the amount indicated in the Mayor's 2006-2007 Proposed Budget for State Revenue Sharing is reasonable, because it corresponds with the amount in the Governor's 2006-2007 Executive Budget. It should be noted that the Governor's Executive Budget has yet to be enacted and is still subject to change. For fiscal year 2006-2007, the amount Detroit is estimated to receive from the State has been lowered by \$1.0 million due to changes in the State's economy and its expected revenue collections.

MUNICIPAL INCOME TAX REVENUE

Total Municipal Income Tax revenue contained in the Mayor's 2006-2007 Proposed Budget is \$3.7 million less than the amount budgeted for fiscal year 2005-2006. The Municipal Income Tax revenue included in the Mayor's 2006-2007 Proposed Budget is compared to the fiscal year 2005-2006 Budget in the following schedule:

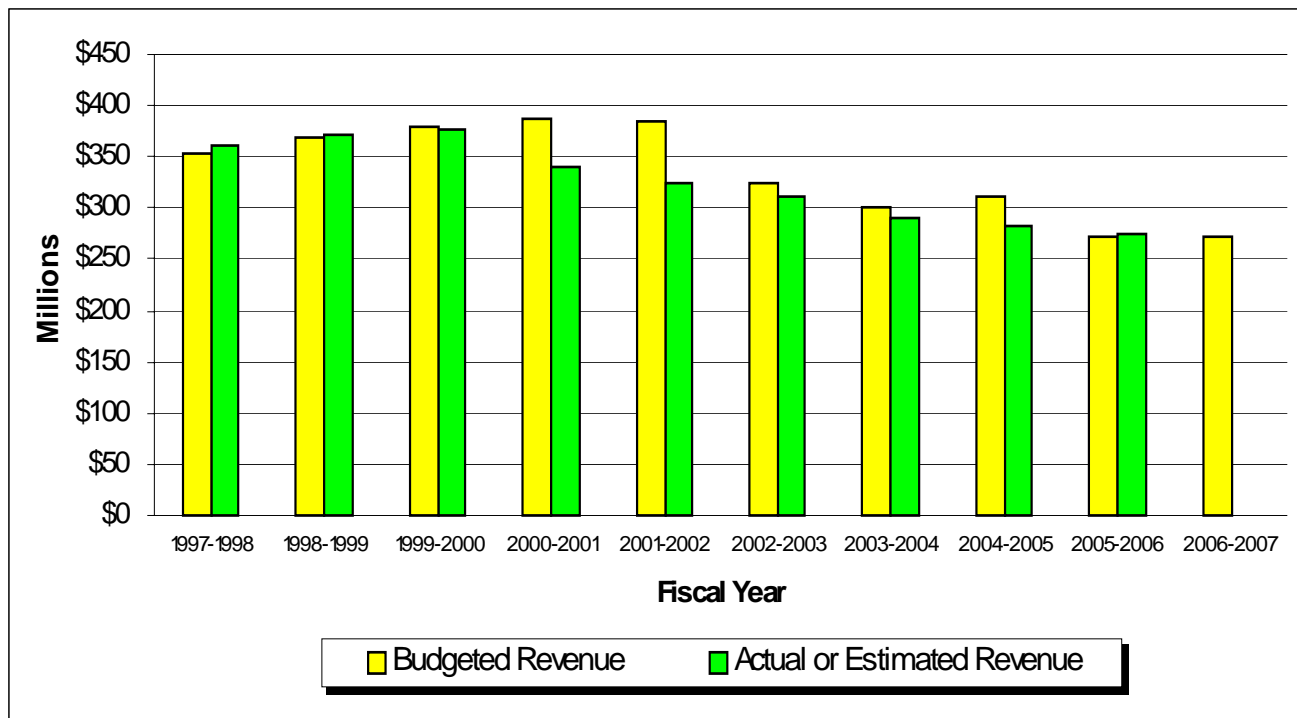
In Millions			
	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
Municipal Income Tax	\$ 270.0	\$ 272.6	\$ (2.6)
Prior Years Municipal Income Tax	1.4	2.5	(1.1)
Total Municipal Income Tax	<u>\$ 271.4</u>	<u>\$ 275.1</u>	<u>\$ (3.7)</u>

The following schedule shows budgeted and actual Municipal Income Tax revenue for each fiscal year from 1997-1998 to 2004-2005. The schedule also shows budgeted revenue and estimated actual revenue for the fiscal year ending June 30, 2006, and budgeted Municipal Income Tax revenue for fiscal year 2006-2007 as shown in the Mayor's 2006-2007 Proposed Budget.

Dollars In Millions							
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year		
			Amount	Percentage	Amount	Percentage	
1997-1998	\$ 351.5	\$ 361.6	\$ 10.1	2.9 %	\$ 28.7	8.6 %	
1998-1999	368.0	370.4	2.4	0.7	8.8	2.4	
1999-2000	379.9	378.3	(1.6)	(0.4)	7.9	2.1	
2000-2001	387.4	341.0	(46.4)	(12.0)	(37.3)	(9.9)	
2001-2002	384.8	323.5	(61.3)	(15.9)	(17.5)	(5.1)	
2002-2003	323.5	310.9	(12.6)	(3.9)	(12.6)	(3.9)	
2003-2004	311.1	290.6	(20.5)	(6.6)	(20.3)	(6.5)	
2004-2005	319.0	282.5	(36.5)	(11.4)	(8.1)	(2.8)	
2005-2006 (A)	275.1	273.5	(1.6)	(0.6)	(9.0)	(3.2)	
2006-2007 (B)	271.4	N/A	N/A	N/A	N/A	N/A	

- (A) The amount shown in the schedule as actual revenue for fiscal year 2005-2006 is a Budget Department estimate based on actual year-to-date Municipal Income Tax revenue as of March 30, 2006, and an adjustment for weekly changes in collections over the last year.
- (B) The budgeted amount is the only amount available for fiscal year 2006-2007. The other amounts are designated N/A (Not Applicable) in the schedule. The budget assumes a 1.5% negative growth rate.

The chart below compares budgeted Municipal Income Tax revenue to the actual revenue for fiscal years 1997-1998 through 2004-2005 and the budgeted Municipal Income Tax revenue to the estimated revenue for fiscal year 2005-2006, and the budgeted Municipal Income Tax revenue in the Mayor's 2006-2007 Proposed Budget.



Income Tax Rates for 2006-2007

For the fiscal year 2006-2007, the income of residents and nonresidents will be taxed at the rate of 2.5% and 1.25%, respectively, while the corporate tax rate will be 1.0%. The tax rates are the same as the prior three years due to the suspension of Act 500, P.A., 1988. The Act reduces City income tax rates by one-tenth of a percentage point per year for residents and one-twentieth of a percentage point for non-residents over a ten-year period, until the rates are 2.0% and 1.0% respectively¹. For fiscal year 2004-2005, the City recorded a deficit of \$145.0 million. In December 2005, the City petitioned the State Administrative Board to suspend the income tax rate reduction for fiscal year 2006-2007 because the City's financial condition met three of the four conditions specified in the Act. The four conditions are as follows:

- a) *"Funds have been withdrawn from the City's budget stabilization fund for two or more consecutive city fiscal years or there is a balance of zero in the city's budget stabilization fund."*
- b) *"The City's income tax revenue growth rate is 95% or less."*
- c) *"The local tax base growth rate is 80% or less of the statewide tax base growth rate."*
- d) *"The City's unemployment rate is 10% or higher according to the most recent statistics available from the Michigan Jobs Commission."*

¹ Before Act 500, P.A., 1988 was enacted into law, the Municipal Income Tax rates were 3.0% for residents, 1.5% for nonresidents, and 2.0% for corporations.

Attempts have been made to quantify the effect of Detroit's income tax rate reduction in terms of foregone revenue. An estimate provided by the Citizens Research Council (CRC) of Michigan in December 2005 indicates that each one-tenth of a percentage point reduction in the tax rate results in a reduction in revenue of approximately \$12.0 million, ignoring any growth in the tax base.

Other Factors Influencing Municipal Income Tax Revenue

In general, the national economy has shown signs of improvement; however, Michigan's gains in personal income and employment have lagged behind nearly every other state in the country. The State of Michigan Senate Fiscal Agency's economic forecast for fiscal year 2006-2007, states employment gains in Michigan have been hampered by sustained increases in productivity, and a variety of other economic shocks, particularly in energy prices. Economic downturns in the manufacturing sector are multiplied throughout the Michigan economy. The State of Michigan House Fiscal Agency's Economic Outlook as of January 2006, reports Michigan lost a total of 314,000 jobs during the period June 2000 until July 2003. In the 28 months since July 2003, employment in Michigan has continued to decline, but at a slower pace. As of November 2005, 18,500 additional jobs have been lost. The City of Detroit's economy is substantially affected by the economic performance of the State. This is reflected in the City's high unemployment rate of 13.0%, which was 6.0% higher than the State's unemployment rate of 7.2% as of February 2006.

Other factors affecting Municipal Income Tax revenue is the loss of residents at an annual rate of 10,000, and the reduction of the personal exemption. Taxpayers that move out of the City will reduce their City tax obligation by 50.0%, at a minimum, and 100.0% altogether if they are not employed in the City. The Budget Department's fiscal year 2006-2007 income tax projection incorporates a 1.5% negative growth rate that is derived from the trend in prior year's income tax collections. The Income Tax Division estimates that a reduction in the personal exemption amount effective January 1, 2005 from \$750 to \$600 will increase income tax revenue by \$2.5 million annually.

Estimated Municipal Income Tax Revenue for Fiscal Year 2005-2006

Income tax revenue can be difficult to predict due to various economic factors such as population changes over time, employment levels, and changes in taxpayer incomes that directly affect the City's income tax revenue. Perhaps the most significant indicator of future municipal tax collection expectations is the declining trend in municipal income taxes over the past five years. Historical trends reflect the net effect of all the factors affecting a particular measurement. The trend in municipal income taxes indicates that municipal income tax revenue will continue to decline but at a slower pace. The Budget Department estimates actual Municipal Income Tax revenue of \$273.5 million for the fiscal year ending June 30, 2006, an amount that is \$0.9 million or 0.3% more than the budgeted amount. The estimate is based on tax collections from the past year. Based on our analysis, the estimated amount appears reasonable.

Prior Years Municipal Income Tax

The Mayor's 2006-2007 Proposed Budget includes \$1.4 million for the collection of prior year income taxes. For fiscal year 2005-2006, \$2.5 million was budgeted for the collection of delinquent income tax revenue by an external tax collection service. As of March 2006, the service collected \$1.6 million in income tax revenues during fiscal year 2005-2006. The external tax collection service contract ended in March 2006 and it is not anticipated that the contract will be renewed. The Budget Goals and Guidelines in the fiscal year 2006-2007 Executive Budget Summary note the continuing decline in income tax collections. A total of six

positions are proposed for the Finance Department Treasury Division, in part, to enhance revenue collections by aggressively investigating outstanding income taxes owed to the City. The added positions will not affect the current year's collections. Therefore, to the extent that tax collections are dependent on the efforts of staff, the rate of collections will decrease until the new positions are filled.

Conclusion

The Mayor's 2006-2007 Proposed Budget includes current year Municipal Income Tax revenue of \$270.0 million. This is \$1.2 million or 0.4% less than the \$272.6 million included in the fiscal year 2005-2006 budget, and \$2.9 million or 1.1% less than the \$273.5 million estimated collections for the same period. The Budget Department's projection incorporates a 1.5% negative growth rate that was derived from the trend from prior years income tax collections. Therefore, based on our analysis of the estimated collections for fiscal year 2005-2006, the stable income tax rate, and the negative growth rate, we conclude that the income tax revenue projection in the amount of \$271.4 million in the Mayor's 2006-2007 Proposed Budget is reasonable.

PROPERTY TAX REVENUE

Property Tax Revenue includes the collection of current taxes on both real property (i.e., real estate) and personal property (i.e., machinery and equipment).

Tax levies, taxable valuations and tax rates (not including the Library) included in the Mayor's 2006-2007 Proposed Budget are compared to the fiscal year 2005-2006 Budget in the following schedules:

<u>Tax Levies (Millions)</u>	<u>Mayor's 2006-2007 Proposed Budget</u>	<u>2005-2006 Budget</u>	<u>Increase (Decrease)</u>
General Operations	\$ 181.2	\$ 174.6	\$ 6.6
Garbage Tax	0.0	26.2	(26.2)
Debt Service	76.2	61.9	14.3
Total Tax Levy	<u>\$ 257.4</u>	<u>\$ 262.7</u>	<u>\$ (5.3)</u>
Less: Estimated Delinquencies	12.9	13.1	(0.2)
Amounts Due to Wayne County	<u>3.7</u>	<u>0.0</u>	<u>3.7</u>
Net Property Tax Collections	<u>\$ 240.8</u>	<u>\$ 249.6</u>	<u>\$ (8.8)</u>
Total Delinquent Taxes (includes Interest and Penalty)	\$ 7.6	\$ 14.4	\$ (6.8)
Total Revenues From Property Taxes	<u><u>\$ 248.4</u></u>	<u><u>\$ 264.0</u></u>	<u><u>\$ (15.6)</u></u>

The increase in taxable valuations of \$331.2 million represents an increase of \$364.7 million in Real Property values and a decrease in Personal Property of \$33.5 million.

Taxable Valuations (Millions)	<u>\$ 9,081.0</u>	<u>\$ 8,749.8</u>	<u>\$ 331.2</u>
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As of July 1, 2005, tax rates (excluding debt service) were rolled back by a factor of 0.9995 (MCL 211.23d). Garbage mills were recommended for elimination in fiscal year 2006-2007 to be replaced with a garbage collection fee.

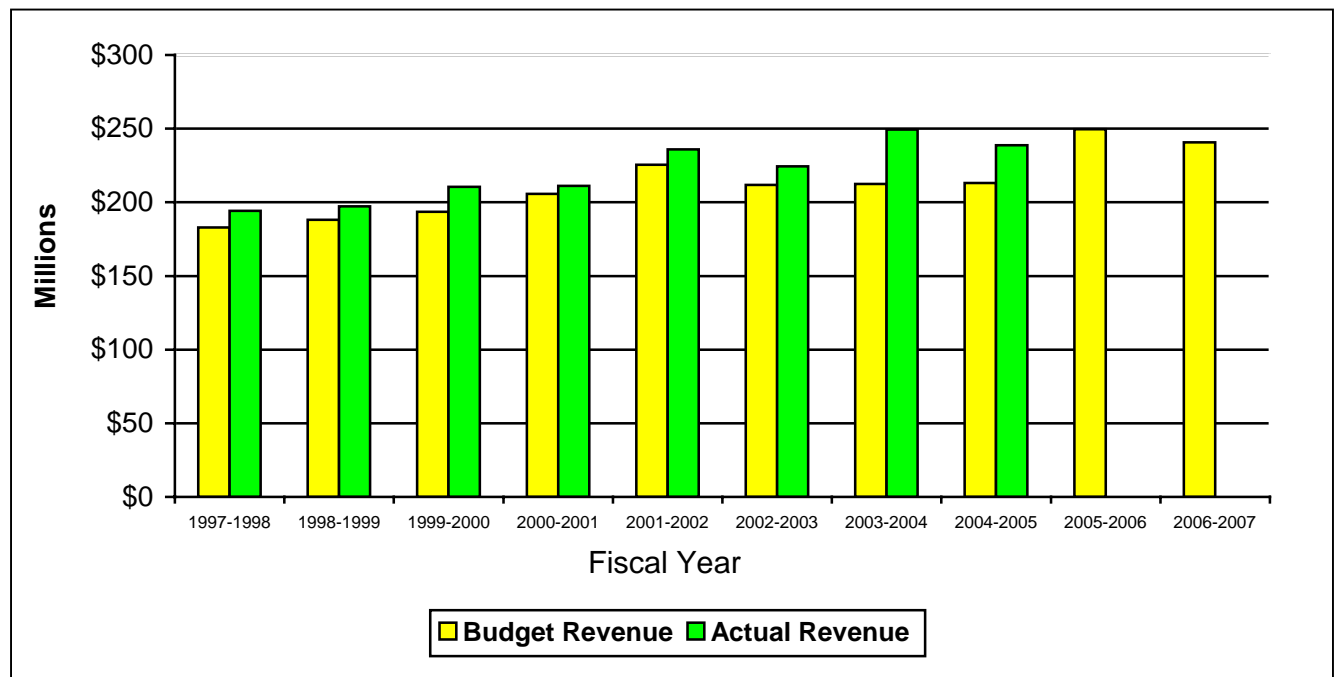
<u>Tax Rates (Per Thousand)</u>			
General Operations	\$ 19.9520	\$ 19.9520	\$ 0.0000
Garbage Tax	0.0000	2.9928	(2.9928)
Debt Service	8.3951	7.0753	1.3198
Total Tax Rate	<u><u>\$ 28.3471</u></u>	<u><u>\$ 30.0201</u></u>	<u><u>\$ (1.6730)</u></u>

The following table shows budgeted and actual property tax revenue, including amounts for both the General and Debt Service Funds, for each fiscal year from 1997-1998 through 2004-2005. The table also includes budgeted property tax for fiscal year 2005-2006, and budgeted property tax revenue as shown in the Mayor's 2006-2007 Proposed Budget.

Dollars In Millions							
Fiscal Year	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year		
			Amount	Percentage	Amount	Percentage	
1997-1998	\$ 182.9	\$ 194.1	\$ 11.2	6.1 %	\$ 4.8	2.5 %	
1998-1999	188.1	197.3	9.2	4.9	3.2	1.6	
1999-2000	193.5	210.6	17.1	8.8	13.3	6.7	
2000-2001	205.7	211.1	5.4	2.6	0.5	0.2	
2001-2002	225.5	235.9	10.4	4.6	24.8	11.7	
2002-2003	211.8	224.3	12.5	5.9	(11.6)	(4.9)	
2003-2004	212.4	249.4	37.0	17.4	25.1	11.2	
2004-2005	213.1	238.8	25.7	12.1	(10.6)	(4.3)	
2005-2006 (A)	249.6	N/A	N/A	N/A	N/A	N/A	
2006-2007 (A)	240.8	N/A	N/A	N/A	N/A	N/A	

(A) The budgeted amount is the only figure available for fiscal year 2005-2006 and 2006-2007. The other amounts are designated N/A (Not Available) in the schedule.

The following chart compares budgeted property taxes for both the General and Debt Service Funds to actual collections of property taxes for fiscal years 1997-1998 through 2004-2005. The chart also includes budget amounts for fiscal years 2005-2006 and 2006-2007. Actual amounts are not available for these years.



Property Tax Analysis

Taxable property valuations increased by \$331.2 million because of the increase in market values on real property. Personal property valuation is down \$33.5 million. Despite the overall increase in taxable property valuations in fiscal year 2006-2007, the Mayor's 2006-2007 Proposed Budget is \$8.7 million or 3.49% less than the amount budgeted for fiscal year 2005-2006. The following are the primary reasons for the net decrease in revenue from property taxes:

- The proposed elimination of the garbage mills of 2.9928, which represents a decrease of \$26.2 million in the proposed budget. The decrease in revenue from the elimination of the garbage mills is to be replaced by a trash collection fee of \$75 per quarter, or \$25 per month.
- A reduction in property taxes for amounts due to the Wayne County Treasurer of \$3.7 million for unpaid taxes the County has been unable to collect over the past two years.
- An increase in Debt Service of \$14.3 million.
- An increase in taxes from General Operations of \$6.6 million.

Debt Service and General Operations levies increased as a result of the increase in taxable property valuations.

The Mayor's 2006-2007 Proposed Budget assumes a 94.99% collection rate, which is practically unchanged from the prior year's assumption of 94.98%. In fiscal years 2003-2004 and 2004-2005, per the City's Comprehensive Annual Financial Reports, the City collected 95.65% and 93.53% of its current property tax levy, respectively. The Net Property Tax Collections amount of \$240.8 million in the Mayor's 2006-2007 Proposed Budget was estimated at a 93.55% collection rate, which is consistent with the prior years collection rate.

Delinquent Taxes

The delinquent taxes include estimated amounts for unpaid taxes on personal property to be collected by the City. The Wayne County Treasurer's Office will continue to have primary responsibility for collecting current unpaid taxes in fiscal year 2006-2007. Therefore, the \$7.6 million amount included in the Mayor's 2006-2007 Proposed Budget for delinquent taxes is reasonable.

Other Factors Influencing Property Tax Revenue

Property Tax Amendment

Act 246, P.A., 2003 requires that beginning with tax year 2003, as of March 1, all unpaid Real Property taxes will be collected by the Wayne County Treasurer. In addition, as of December 1, 2004, the City of Detroit Treasurer will bill and collect all current real and personal property taxes. Prior to the enactment of Act 246, P.A., 2003, the average collection rate of current property taxes during fiscal years 1995-1996 through 2002-2003 years was between 84.0% and 91.0%. The collection rate on current unpaid taxes increased in fiscal years 2003-2004 and 2004-2005 to 95.65% and 93.53%, respectively. The reason for the increase is that the Wayne County Treasurer makes an advance payment to the City for current unpaid taxes before the end of each fiscal year. The City records the advance payment as current year property tax revenue, thereby increasing the current collection rate.

Neighborhood Enterprise Zone (NEZ)

In January 2006, the Governor signed legislation (Acts 338-340, P.A., 2006) that would amend the State's Neighborhood Enterprise Zone Act to make additional housing eligible for reduced property taxes for up to 15 years. NEZ's have existed in Michigan since 1992 and were designed to improve the housing market in core communities by offering reduced property taxes. Property owners who have a NEZ certificate do not pay standard property taxes, and instead pay a zone tax equal to half the city and county operating millage rates, plus all other applicable taxes. The zone tax increases in each of the last three years of the abatement, eventually reaching seven-eighths of operating mills in the year the abatement expires. Previously, residential tax abatements in NEZ's were only available for newly constructed or refurbished homes. The new legislation allows existing homes, purchased since 1998, to be eligible as well. Qualifying residents with a home with a taxable value of \$100,000 could save about \$1,500 in the first year.

The new NEZ legislation is designed to provide property tax relief for homeowners and retain citizens within the City of Detroit. While the potential benefits to the City of the new NEZ legislation has not been quantified, the potential cost to Detroit was estimated by the State's Senate Fiscal Agency in December 2005 as follows: Based on 2005 millage rates, if 25,000 homestead facilities, with an average taxable value of \$44,000 were included in a NEZ and affected by the new legislation in 2006, the bill would reduce revenue payable to Wayne County by approximately \$3.1 million and revenue payable to the City by approximately \$11.0 million.

Conclusion

Based on the property tax collection rates of 95.65% and 93.53% in fiscal years 2003-2004 and 2004-2005, respectively, we conclude that the fiscal year 2005-2006 budgeted estimate of \$249.6 million is reasonable. In addition, considering the high collection rates over the past two fiscal years, and the expected collection rate of 94.99% in fiscal year 2006-2007, the budgeted net property tax of \$240.8 million in the Mayor's 2006-2007 Proposed Budget is reasonable. If the solid waste fee is not implemented and garbage tax continues, property tax collections should exceed the budgeted amount by \$26.2 million and reach \$267.0 million.

CASINO RELATED REVENUE

Total casino revenue contained in the Mayor's 2006-2007 Proposed Budget is \$25.3 million more than the amount budgeted for fiscal year 2005-2006. The following schedule compares total casino revenue included in the Mayor's 2006-2007 Proposed Budget to the fiscal year 2005-2006 Budget:

	In Millions		
	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
Wagering Tax	\$157.5	\$ 153.0 (A)	\$ 4.5
Percentage Payments	20.8	0.0	20.8
Municipal Service Fee	15.3	15.3	0.0
Total Casino Revenue	<u>\$193.6</u>	<u>\$168.3</u>	<u>\$ 25.3</u>

(A) The budgeted wagering tax for fiscal year 2005-2006 includes \$5.5 million for the percentage payments required by the City's Casino Development agreements. This amount is budgeted separately in the Mayor's 2006-2007 Proposed Budget.

The following schedule shows budgeted and actual casino revenue for each fiscal year from 1999-2000 through 2004-2005. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2006, and projected revenue as shown in the Mayor's 2006-2007 Proposed Budget.

	Dollars In Millions						
	Budgeted	Actual	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year		
Fiscal Year	Revenue	Revenue	Amount	Percentage	Amount	Percentage	
1999-2000	\$ 0.0	\$ 53.4	\$ 53.4	N/A %	\$ 53.4	N/A %	
2000-2001	89.7	94.9	5.2	5.8	41.5	77.7	
2001-2002	108.9	122.5	13.6	12.5	27.6	29.1	
2002-2003	118.0	189.2	71.2	60.3	66.7	54.4	
2003-2004	170.7	168.3	(2.4)	(1.4)	(20.9)	(11.1)	
2004-2005	131.9	152.8	20.9	15.8	(15.5)	(9.2)	
2005-2006 (A)	168.3	171.8	3.5	2.1	19.0	12.4	
2006-2007 (B)	193.6	N/A	N/A	N/A	N/A	N/A	

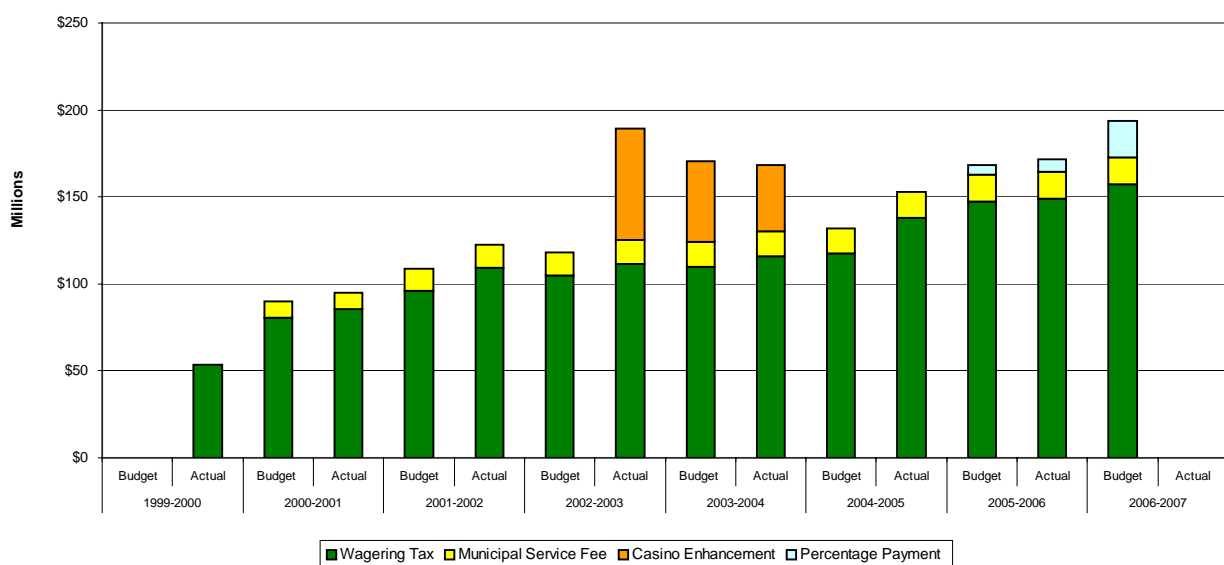
(A) The amount shown in the schedule as actual revenue for fiscal year 2005-2006 is a Budget Department estimate based on actual year-to-date casino revenue as of March 31, 2006 annualized through the end of the fiscal year 2005-2006.

(B) The proposed budget is the only amount available for fiscal year 2006-2007.

The chart below compares the budgeted and actual or estimated casino revenue from fiscal year 1999-2000 through fiscal year 2006-2007. The actual column for fiscal year 2005-2006 is the Budget Department's estimate of revenues that will be collected based on annualized collections through March 31, 2006.

Casino Enhancement Revenue, required by the development agreement, totaling \$102.0 million, was paid over a two year period as follows: \$63.75 million was received in fiscal year 2002-2003; and \$38.25 million was received in fiscal year 2003-2004.

The Percentage Payments, also required by the development agreement, took effect on January 1, 2006. The Casino Development Agreements include terms that require the assessment of an additional 1.0% of Adjusted Gross Revenues beginning January 1, 2006. An additional 1.0% is assessed against each casino developer when Adjusted Gross Revenues reach \$400.0 million (trigger point) in any calendar year. The City anticipates receiving "trigger point" revenue in fiscal year 2006-2007 in the amount of \$20.8 million.



Wagering Tax

Pursuant to Act 69, P.A., 1997, the City receives Wagering Tax and Municipal Service Fee revenue from the MGM Grand Detroit (MGM), MotorCity, and Greektown Casinos. Prior to September 1, 2004, the City's Wagering Tax revenue represented 9.9% of Net Win¹. On September 1, 2004, Act 306, P.A., 2004 went into effect, increasing the total Wagering Tax rate paid by the three Detroit casinos from 18.0% to 24.0%, with 2.0% of the additional assessment going to the City of Detroit. The City's Wagering Tax revenue now represents 11.9% of Net Win.

For fiscal year 2005-2006, the Budget Department estimates actual Wagering Tax revenue will be \$148.5 million, or \$1.3 million more than the \$147.5 million budgeted amount. The Budget Department's estimated fiscal year 2005-2006 Wagering Tax revenue of \$148.8 million is reasonable.

The Mayor's 2006-2007 Proposed Budget includes \$157.5 million in Casino Wagering Taxes, an increase from the fiscal year 2005-2006 budget amount of \$147.5 million. Based on our analysis

¹ Net Win is the total gross casino receipts less winnings paid out to wagers.

of actual and projected casino revenue data, the fiscal year 2006-2007 budget for Casino Wagering Tax is reasonable.

Percentage Payment

The Percentage Payment revenue for fiscal year 2006-2007, is based on the additional 1.0% rate that will be effective for the entire fiscal year, and additional revenues “triggered” when a casino’s Adjusted Gross Receipts reach \$400.0 million. The fiscal year 2005-2006 budget included \$5.5 million for the additional percentage payment for one-half of the fiscal year. The Budget Department’s estimated percentage payment collections, of \$7.7 million for fiscal year 2005-2006, is reasonable. In the Mayor’s 2006-2007 Proposed Budget, \$20.8 million is budgeted for the percentage payments. Based on our analysis of actual and projected casino revenue data, this amount appears reasonable.

Municipal Service Fee

The Municipal Service Fee is collected from casino operators to offset expenditures incurred by the City as a result of the casinos’ requirements for public safety services. The amount of the Municipal Service Fee is the greater of 1.25% of Net Win or \$400.0 million per licensee. This fee is paid to the City on the anniversary date of each casino’s opening.

The fiscal year 2005-2006 actual Municipal Service Fee is estimated to be \$15.3 million. This budgeted revenue amount is reasonable. Municipal Service Fee related expenditures were budgeted at \$8.8 million. At March 31, 2006, actual expenditures reached \$9.1 million. We estimate that they will reach \$12.2 million by the end of fiscal year 2005-2006, causing a budget deficit of \$3.4 million within the appropriation, yet less than the Municipal Service Fee revenues received to fund these services.

The Mayor’s 2006-2007 Proposed Budget also includes \$15.3 million of Municipal Service Fee Revenue. The budget also provides appropriations of \$11.9 million to fund 74 police officers, and 36 Fire and Emergency Medical Service (EMS) employees for the three casinos. This represents an increase of 11 positions for the police gaming unit and no change of positions within the Fire/EMS unit from the prior year budget. The fiscal year 2006-2007 budgeted Municipal Service Fee revenue of \$15.3 million is expected to fully fund the expenditures for these services.

The following schedule compares total casino appropriations funded by the Municipal Service Fee and the public safety services provided in the Mayor’s 2006-2007 Proposed Budget to the fiscal year 2005-2006 budgeted appropriations and services:

	In Millions		
	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
Municipal Service Fee	\$ 15.3	\$ 15.3	\$ 0.0
Public Safety Services Provided:			
Police	\$ 7.8	\$ 5.9	\$ 1.9
Fire (including EMS Casino)	4.1	2.9	1.2
Total Appropriations	\$ 11.9	\$ 8.8	\$ 3.1
Municipal Service Fee Surplus	\$ 3.4	\$ 6.5	\$ (3.1)

Issues Related to Casino Related Revenue

The 2002 injunction (*Lac Vieux Desert Band of Lake Superior Chippewa Indians v. Michigan Gaming Board, et al.*) preventing construction of permanent casinos was lifted on April 28, 2005. Permanent casinos are under construction or have been approved, as follows:

- The Michigan Gaming Control Board (Board) approved the \$200.0 million finance package for the development of the Greektown Casino permanent hotel-casino in November 2005.
- The Board approved MGM Casino's plan for its permanent hotel and casino on or at a new site. The target completion date is early 2008 for expansion of its current facility.
- MotorCity Casino broke ground in late November 2005 for its permanent facility expansion.

Conclusion

The \$157.5 million of Wagering Tax Revenue and \$20.8 million of Percentage Payment Revenue budgeted for fiscal year 2006-2007 is reasonable. The City has begun to collect the 1.0% payment outlined in the 2002 Casino Development agreements, and the MGM Grand and MotorCity casinos exceeded the \$400.0 million adjusted gross receipts trigger point for the first time in late 2005.

The Mayor's 2006-2007 Proposed Budget of \$15.3 million for Municipal Service Fee revenue is reasonable. The budgeted Municipal Service Fee revenue appears to fund the amounts budgeted to provide the additional public safety services provided to the casinos.

UTILITY USERS TAX REVENUE

Utility Users Tax revenue contained in the Mayor's 2006-2007 Proposed Budget is equal to the amount budgeted in fiscal year 2005-2006. We compared Utility Users Tax revenue included in the Mayor's 2006-2007 Proposed Budget to the fiscal year 2005-2006 Budget amount in the following schedule:

	In Millions		
	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
Utility Users Tax Revenue	\$ 56.0	\$ 56.0 (A)	\$ 0.0

- (A) Utility Users Tax revenue in the adopted 2005-2006 budget was \$49.7 million. A budget amendment adopted before the beginning of the 2005-2006 fiscal year increased Utility Users Tax revenue by \$6.3 million, which restored it to the \$56.0 million recommended in the Mayor's 2005-2006 Proposed Budget.

The following schedule shows budgeted and actual Utility Users Tax revenue for each fiscal year from 1997-1998 through 2004-2005. The schedule also shows budgeted revenue and estimated revenue for the fiscal year ending June 30, 2006, and budgeted Utility Users Tax revenue as shown in the Mayor's 2006-2007 Proposed Budget.

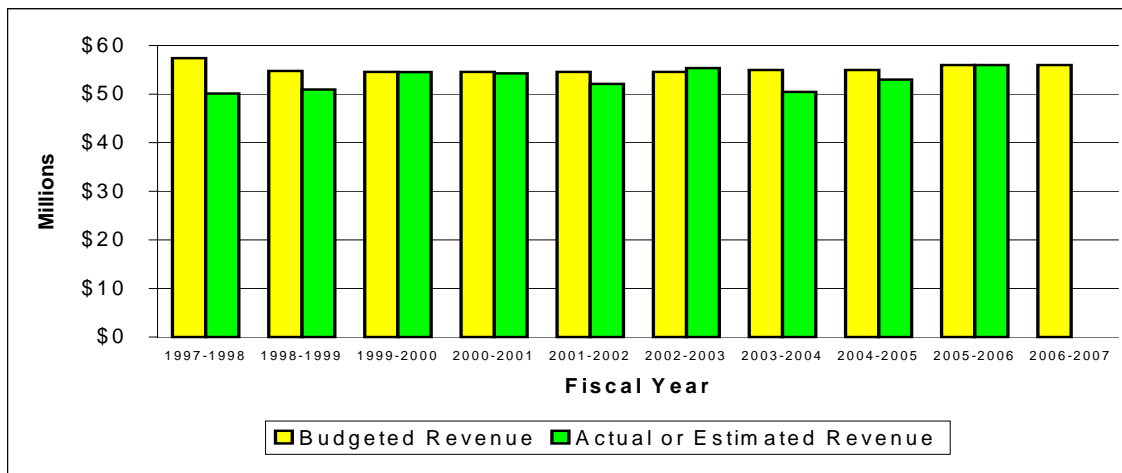
Fiscal Year	Dollars In Millions					
	Budgeted Revenue	Actual Revenue	Actual Over/(Under) Budget		Increase/(Decrease) in Actual Revenue From Prior Year	
			Amount	Percentage	Amount	Percentage
1997-1998	\$57.4	\$50.1	\$(7.3)	(12.7)%	\$(4.5)	(8.2)%
1998-1999	54.7	50.9	(3.8)	(7.0)	0.8	1.6
1999-2000	54.6	54.5	(0.1)	(0.2)	3.6	7.1
2000-2001	54.6	54.3	(0.3)	(0.6)	(0.2)	(0.4)
2001-2002	54.6	52.1	(2.5)	(4.6)	(2.2)	(4.1)
2002-2003	54.6	55.3	0.7	1.3	3.2	6.1
2003-2004	55.2	50.5	(4.7)	(8.5)	(4.8)	(8.7)
2004-2005	55.0	52.9	(2.1)	(3.8)	2.4	4.8
2005-2006 (A)	56.0	56.0	0.0	0.0	3.1	5.9
2006-2007 (B)	56.0	N/A	N/A	N/A	N/A	N/A

- (A) The amount shown in the schedule as actual revenue for fiscal year 2005-2006 is a Budget Department estimate based on actual year-to-date Utility Users Tax revenue through March 2006, and an estimate for the remainder of fiscal year 2005-2006 based on a rising utility rate environment and a lag in posting year-to-date payments.
- (B) The budgeted amount is the only figure available for fiscal year 2006-2007. The other amounts are designated N/A (Not Available) in the schedule. The budgeted figure of \$56.0 million also assumes a rising utility rate environment.

The Utility Users Tax Act, MCL 141.1151 et. seq., allows cities with a population greater than 750,000 to assess up to a 5.0% tax on users for intrastate telephone services (excluding cellular telephone services) and electric, steam, and gas utilities. The current rate charged for Utility Users Tax in the City of Detroit is 5.0%, billed by the public utility or resale customer, with 1.0% of the actual amount collected retained by the public utility.

Estimated revenue for Utility Users Tax for fiscal year 2005-2006 is \$56.0 million. Although Utility Users Tax revenue averaged \$52.6 million for the most recent eight years for which actual revenues are available, escalating utility costs support a \$56.0 million estimate for fiscal year 2005-2006.

The following chart compares budgeted Utility Users Tax revenue to actual revenue for fiscal years 1997-1998 through 2004-2005, budgeted Utility Users Tax revenue to the revenue estimated for fiscal year 2005-2006, and the proposed Utility Users Tax budgeted for fiscal year 2006-2007:



Previously, the Utility Users Tax Act, as amended, provided that the first \$45.0 million generated from this tax be used to retain or hire police officers. The Act also required that the amount of each fiscal year's Utility Users Tax revenue collected in excess of \$45.0 million be dedicated and used exclusively to hire or retain additional police officers, having the rank of sergeant or below, over the level employed on November 1, 1984 of 3,537. If the amounts collected were not used to hire and retain officers above the 3,537 limit, the City was required to lower the tax rate in decrements of 0.25%. Effective November 9, 2005, the Utility Users Tax Act was amended to eliminate the specific police officer staffing requirement provisions. The revenue generated under this Act is required to be placed directly into the Police Department's budget.

Conclusion

Based on our analysis, the Mayor's 2006-2007 Proposed Budget amount of \$56.0 million is reasonable.

BONDS, CERTIFICATES AND NOTES PAYABLE

Bond sales revenue contained in the Mayor's 2006-2007 Proposed Budget is \$785.0 million more than the amount budgeted for in fiscal year 2005-2006. The bond sales revenue included in the Mayor's 2006-2007 Proposed Budget is compared to the budgeted and actual amounts for fiscal year 2004-2005 and the budgeted and estimated actual amounts for fiscal year 2005-2006 in the following schedule:

	In Millions				
	2004-2005		2005-2006		Mayor's 2006-2007
	Budget	Actual	Budget	Estimated Actual	Proposed Budget
Water Revenue Bonds	\$ 400.0	\$ 400.0	\$ -	\$ -	\$ 400.0
Sewerage Revenue Bonds	275.0	275.0	-	-	375.0
Pension Obligation Bonds	80.1	-	-	-	-
Risk Management Bonds	61.1	62.3	-	-	-
Capital Projects	42.0	41.3	50.0	50.0	40.0
New Vehicle Purchases	28.5	20.3	-	-	20.0
800 MHz Bonds	-	82.0	-	-	-
Revenue Anticipation Notes	-	54.4	-	47.0	-
Tax Anticipation Notes	-	-	-	80.0	-
Pension Obligation Certificates	-	1,440.0	-	(B) 800.0	-
Payroll System (A)	-	-	-	-	-
Total	\$ 886.7	\$2,375.3	\$ 50.0	\$ 977.0	\$ 835.0

(A) The Payroll System was not budgeted to be financed by bonds, but was a lease/financing arrangement for \$25.0 million in fiscal year 2005-2006.

(B) Represents the refinancing of part of the Pension Obligation Certificates which will not change the total outstanding principal balance, but will lengthen the maturity and increase the interest paid.

As shown in the schedule above, additions and modifications have been made to the approved budgets in fiscal years 2004-2005 and 2005-2006. The major changes include the \$1.44 billion of Pension Obligation Certificates (POCs) issued in fiscal year 2004-2005, the bonds to finance the 800 MHz radio system, and the Revenue Anticipation Notes. Currently \$127.0 million of Revenue Anticipation Notes and Tax Anticipation Notes are pending approval by City Council as is the refinancing of \$800.0 million of the POCs.

Bond Ratings as of April 1, 2006

<u>Agency</u>	<u>General Obligation Unlimited Tax</u>	<u>General Obligation Unlimited Tax with Municipal Bond Insurance or Letter of Credit</u>
Moody's Investor Service	Baa2	Aaa
Standard & Poor's	BBB	AAA
Fitch Ratings Ltd.	BBB	AAA

The bond ratings from both Moody's Investor Service (Moody's) and Standard & Poor's (S&P) for both the General Obligation Unlimited Tax (GOULT) bonds and the General Obligation Limited Tax (GOLT) bonds were lowered in November 2005. Moody's lowered the rating on GOULT bonds from Baa1 to Baa2 and lowered the rating of GOLT bonds from Baa2 to Baa3. S & P lowered its rating on GOULT bonds from BBB+ to BBB and lowered the rating on GOLT bonds from BBB to BBB-. Fitch Ratings Ltd. (Fitch) lowered its ratings on GOULT bonds from BBB+ to BBB in December 2005. The ratings remain investment grade.

Moody's cited the following reasons for the downgrade:

- The City's weak liquidity position coupled with operating deficits which are expected to continue despite initiatives by the City to reduce expenditures;
- Persistent economic challenges that have impacted the state of Michigan, but particularly the local economy, exemplified by declining population and increasing unemployment levels; and
- General Fund expenditures growth has exceeded revenue growth each year since fiscal year 2000-2001.

S&P cited the ongoing deterioration of the City's financial position due to a prolonged structural imbalance, and the probability that the imbalance will take time to correct, as reasons for lowering the outlook rating from "Stable" to "Negative". In November 2005, S&P outlined the following challenges facing the City that might affect the City's bond ratings:

- Two straight years with deficits reported in the audited financial statements (fiscal years 2002-2003 and 2003-2004), and an anticipated deficit in fiscal year 2004-2005;
- The difficulty of balancing operations given the downward trend in revenues combined with expenditure increases;
- The City's limited revenue-raising flexibility;
- An ongoing reliance on the durable manufacturing sector, specifically the auto industry, as taxpayers and employers; and
- A high debt burden that, while projected to drop in 2009, provides less budgeting flexibility in the meantime. The recent addition of the long-term \$1,440.0 million Pension Obligation Certificates slows the reduction of the debt burden.

Fitch's explanation of its downgrade in ratings cited the same concerns and reasons as those expressed by Moody's and S&P.

Debt Service

The following schedule shows total debt service for the past ten years and the projected debt service for the next ten years:

Fiscal Year	Actual Debt Service In Millions	Fiscal Year	Projected Debt Service (A) In Millions
1995-1996	\$ 92.0	2005-2006	\$ 298.4
1996-1997	123.5	2006-2007	413.2
1997-1998	116.2	2007-2008	292.8
1998-1999	116.7	2008-2009	330.6
1999-2000	126.2	2009-2010	226.7
2000-2001	127.0	2010-2011	230.1
2001-2002	124.6	2011-2012	231.9
2002-2003	132.2	2012-2013	236.0
2003-2004	138.9	2013-2014	216.1
2004-2005	139.7	2014-2015	205.7

(A) Projected Debt Service includes General Obligation Bonds, Pension Obligation Certificates, Revenue Anticipation Notes and Tax Anticipation Notes.

Debt Burden

The following schedule compares the assessed value for property in the City of Detroit, net debt, net debt per capita, and ratio of net debt to assessed value for the fiscal year 1964-1965 to fiscal year 2004-2005:

Fiscal Year	In Millions		Ratio of Net Debt to Assessed Value	Net Debt Per Capita
	Assessed Value	Net Debt		
1964-1965	\$ 5,196.0	\$ 289.2	5.57%	\$ 177
1969-1970	5,306.3	306.1	5.77	203
1974-1975	5,792.1	320.7	5.54	240
1979-1980	5,227.4	367.1	7.02	306
1984-1985	5,230.7	273.0	5.22	253
1989-1990	5,579.8	872.4	15.63	849
1994-1995	5,887.3	1,171.7	19.90	1,181
1999-2000	6,856.7	1,021.0	14.89	1,073
2000-2001	7,204.8	938.1	13.02	986
2001-2002	7,639.8	962.1	12.59	1,011
2002-2003	7,976.0	909.6	11.40	956
2003-2004	7,844.2	1,104.0	14.07	1,161
2004-2005	8,335.8	1,209.1	14.50	1,271

The total assessed value of property in the City of Detroit remained stable from fiscal year 1964-1965 until the mid 1990s when it started to grow along with the City's economy. The data does not reflect the decline in property (i.e., housing stock) in the City in the 1970s, 1980s, and 1990s, which was offset by marginal increases in the taxable value of the remaining property primarily due to inflation. The net debt per capita represents the City's net debt divided by the

estimated population. The net debt per capita and the ratio of net debt to assessed value was relatively stable until the late 1980s when the City issued bonds for the resource recovery facility (Greater Detroit Resource Recovery Authority [GDRRA]). Additional debt issues in the 1980s, 1990s, and 2000s, including self-insurance bonds, have further pushed up net debt per capita.

Total Legal Debt Margin (General Purpose and Hospital)

The Home Rule City Act (Act 279, P.A., 1909) limits the maximum amount of net indebtedness that may be incurred for public purposes. The limit is set at 10.0% of the City's state equalized valuation (adjusted for certain assessed value equivalents) or 15.0% if that portion which exceeds 10.0% is used solely for construction or renovations of hospital facilities. However, allowances under various Public Acts provide for the exclusion of certain general obligation debt (e.g., GDRRA bonds) from the limit. As of April 1, 2006, the general-purpose limit for the City was \$1,390.7 million, which includes \$728.2 million of outstanding debt. Therefore, the City may issue additional bonds in the amount of \$662.5 million. The City may also issue an additional \$695.4 million of debt, if it is related to the construction or renovation of hospital facilities.

Bonds Issued for Internal Service Fund

The Mayor's 2006-2007 Proposed Budget includes \$20.0 million to fund the sale of limited general obligation bonds to finance new vehicle purchases, which is a \$20.0 million increase from the fiscal year 2005-2006 budget.

Bonds Issued for Capital Projects

The Mayor's 2006-2007 Proposed Budget includes the sale of voter approved general obligation bonds that will generate \$40.0 million, which is a decrease of \$10.0 million from the fiscal year 2005-2006 budget. The bond proceeds will provide financing for capital improvement projects in fiscal year 2006-2007 including \$12.9 million for the Public Lighting Department; \$7.6 million for the Recreation Department; \$5.0 million for the Coleman A. Young Municipal Airport; \$5.0 million for the Zoo; and \$9.5 million for various other projects.

Revenue Anticipation Notes and Tax Anticipation Notes

The Mayor's 2006-2007 Proposed Budget does not include the issuance of any Revenue Anticipation Notes (RANs). In the Mayor's 2004-2005 Proposed Budget, RANs were not budgeted, but were issued in the amount of \$55.0 million. These RANs were paid in full in April 2006. Again, in the Mayor's 2005-2006 Proposed Budget, neither RANs nor Tax Anticipation Notes (TANs) were budgeted. The administration has proposed and the City Council has approved \$47.0 million of RANs and \$80.0 million of TANs to be issued before June 30, 2006. This will be the second time since June 1994 that the City has issued "anticipation" notes. The Interim Chief Financial Officer has indicated that RANs and/or TANs will be issued during fiscal year 2006-2007.

Pension Obligation Certificates

In fiscal year 2004-2005, Pension Obligation Certificates (POCs) of \$1.44 billion were issued. The administration has proposed that \$800.0 million of the POCs be refinanced extending the term of these POCs from 2025 to 2035. The intent of the refinancing is to decrease the annual payments required in each year up to the year 2016. After 2016, there will be requirements for additional annual level payments, which will continue until the year 2035. The refinancing of the POCs will result in lower debt service payments over the next twelve years and therefore provide a positive cash flow of \$391.8 million over that period. The dissavings or additional interest cost as a result of extending the term of the POCs during the final seventeen years will

be \$1,411.3 million resulting in a net increased cost of \$1,019.8 million. City Council has not yet approved the refinancing.

Revenue Bonds

The Mayor's 2006-2007 Proposed Budget includes \$775.0 million in proceeds from the sale of revenue bonds for the Water and Sewerage Department. The fiscal year 2005-2006 Budget did not include any amount for Revenue Bonds. Proceeds of these bonds will be used for maintaining and improving the water and sewerage systems.

Conclusion

Last year we stated that the amount of bond and bond related financing was significantly higher than was budgeted. In fiscal year 2004-2005 bonds were issued to fund current expenses, and in fiscal year 2005-2006 the City is planning on issuing two "anticipation" notes to fund current expenses. The City's debt policy specifies that long-term debt should only be issued for capital purposes, and not to finance current operations or working capital. The debt policy also specifies that financial and cash flow planning should minimize the need for short-term debt.

The City annually issues bonds for capital improvements in the \$40.0 to \$50.0 million range, therefore the \$40.0 million included in the Mayor's 2006-2007 Proposed Budget for Capital Improvements is reasonable.

However, in recent years, the financing strategy of the City has been very diverse with substantial modifications made during the year, and the effect of these modifications can impact the general fund and debt service significantly.

The proposed POC refinancing transaction is designed to free up working capital by:

- Eliminating the need to use funds to make debt service payments required in the current fiscal year, and
- Reducing the amount of funds needed in the next fiscal year for debt service requirements.

EXHIBIT 6

**ESTIMATED REVENUES BY SOURCE
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET
(In Millions)**

	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
LOCAL SOURCES			
Gross Property Tax (excludes Library)	\$ 257.4	\$ 262.8	(5.4)
Less: Estimated Delinquencies	(12.9)	(13.1)	0.2
Adjustments	(3.7)	-	(3.7)
Net Property Tax	\$ 240.8	\$ 249.7	\$ (8.9)
Less: Uncollectible Accounts Reserve	(3.6)	-	(3.6)
Administrative Fees	\$ 7.1	\$ 7.4	\$ (0.3)
Delinquent Taxes (includes Interest and Penalty)	7.6	14.4	(6.8)
Downtown Development Authority	1.4	1.4	-
Earnings on Investments	4.3	2.7	1.6
General Obligation Bonds	40.0	50.4	(10.4)
Internal Service Fund	40.3	20.3	20.0
Licenses, Permits, and Inspection Charges	9.3	14.4	(5.1)
Limited/Pledged Debt Expense	13.6	13.6	-
Municipal Income Tax	270.0	272.6	(2.6)
Prior Years Municipal Income Tax	1.4	2.5	(1.1)
Municipal Service Fee (Casinos)	15.3	15.3	-
Wagering Tax (Casinos)	157.5	153.0	4.5
Casino Percentage Payment	20.8	-	20.8
Ordinance Fines	19.3	19.4	(0.1)
Other Taxes	-	-	-
Parking Fines	14.1	13.1	1.0
Risk Management Fund (Workers' Compensation Pass Through)	16.4	18.1	(1.7)
Sale of Electricity and Steam	46.9	46.7	0.2
Sale of Assets	30.0	40.2	(10.2)
Risk Management Fund - Sale of Bonds	-	-	-
Pension Obligation Bonds	-	-	-
Sales and Charges for Services	98.6	105.2	(6.6)
Solid Waste Fees	67.2	-	67.2
Supplemental Fee (GDRRA)	52.9	33.1	19.8
Utility Users Excise Tax	56.0	49.7	6.3
Other Revenues	78.4	99.0	(20.6)
Enterprise Agencies			
Library Revenues (Excluding Federal and State Sources)	44.7	46.7	(2.0)
Revenue Bonds	775.0	-	775.0
Revenue from Operations	783.4	772.1	11.3
Subsidy from General Fund	76.3	83.5	(7.2)
SUBTOTAL - MAJOR LOCAL REVENUES	\$ 2,985.0	\$ 2,144.5	\$ 840.5

EXHIBIT 6

ESTIMATED REVENUES BY SOURCE
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET
(In Millions)

	Mayor's 2006-2007 Proposed Budget	2005-2006 Budget	Increase (Decrease)
FEDERAL SOURCES			
Community Development Block Grant	\$ 43.7	\$ 47.4	\$ (3.7)
Community Service Block Grant	6.9	7.7	(0.8)
Crime Bill - Police	1.8	1.7	0.1
Department of Energy Weatherization Grant	3.8	4.1	(0.3)
Head Start Grant	46.1	54.9	(8.8)
Health Grants	38.9	39.8	(0.9)
Home Investment Grant	10.2	11.1	(0.9)
Work Force Investment Act Grant	21.6	25.9	(4.3)
Medicare Reimbursement-EMS	5.3	3.9	1.4
Michigan Occupational Skills Training Grant	33.7	33.2	0.5
Other Revenues	13.2	12.6	0.6
SUBTOTAL - MAJOR FEDERAL REVENUES	\$ 225.2	\$ 242.3	\$ (17.1)
STATE OF MICHIGAN SOURCES			
Equity Package - Cultural	-	0.6	(0.6)
Equity Package - Police	-	0.1	(0.1)
Gas and Weight Taxes	68.4	52.0	16.4
Library Community Programs	0.8	0.8	-
Mass Transportation Funds	51.4	50.0	1.4
Medicaid Reimbursements	8.2	7.1	1.1
Public Health Programs	21.4	20.9	0.5
State Revenue Sharing - General Fund	282.5	283.5	(1.0)
State Revenue Sharing - Library	1.6	1.6	-
Other Revenues	17.3	17.6	(0.3)
SUBTOTAL - MAJOR STATE REVENUES	\$ 451.6	\$ 434.2	\$ 17.4
TOTAL REVENUES - ALL SOURCES	\$ 3,661.8	\$ 2,821.0	\$ 840.8

Note: Major increases/(decreases) of \$5.0 million or more in bold print

**ESTIMATED REVENUE BY AGENCY
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET**

AGENCY	Mayor's 2006-2007 Proposed Budget		2005-2006 Budget	
	Amount	Percent of Total	Amount	Percent of Total
GENERAL CITY AGENCIES:				
EXECUTIVE AGENCIES:				
12 Budget	\$ -	0.00 %	\$ -	0.00 %
14 Civic Center	9,261,607	0.25	9,543,809	0.34
16 Consumer Affairs (A)	-	0.00	1,675,000	0.06
19 Department of Public Works	152,770,048	4.17	72,591,301	2.57
21 Detroit Workforce Development Dept.	55,343,696	1.51	59,119,997	2.10
22 Environmental Affairs	4,234,400	0.12	3,285,135	0.12
23 Finance	7,028,996	0.19	7,488,059	0.27
24 Fire	19,270,535	0.53	20,427,064	0.72
25 Dept. of Health and Wellness Promotion	71,652,976	1.96	73,268,943	2.60
26 Historical (B)	-	0.00	704,984	0.02
28 Human Resources	11,151,042	0.30	12,311,588	0.44
29 Human Rights	-	0.00	-	0.00
30 Human Services	62,725,064	1.71	76,536,894	2.71
31 Information Technology Services	1,463,734	0.04	1,506,201	0.05
32 Law	3,149,357	0.09	3,114,357	0.11
33 Mayor's Office	-	0.00	-	0.00
36 Planning and Development Dept.	78,973,986	2.16	93,731,496	3.32
37 Police	88,336,982	2.41	96,180,844	3.41
38 Public Lighting	64,831,116	1.77	53,738,116	1.90
39 Recreation Department	10,366,393	0.28	9,313,590	0.33
40 Senior Citizens (C)	-	0.00	400,000	0.01
44 Zoological Institute (D)	-	0.00	12,750,584	0.45
45 Department of Administrative Hearings	1,115,941	0.03	1,644,000	0.06
46 Detroit Office of Homeland Security (E)	45,000	0.00	-	0.00
47 General Services Department (F)	7,445,281	0.20	-	0.00
TOTAL EXECUTIVE AGENCIES	\$ 649,166,154	17.73 %	\$ 609,331,962	21.60 %
LEGISLATIVE AGENCIES:				
50 Auditor General	\$ 250,000	0.01 %	\$ 173,000	0.01 %
51 Zoning	105,000	0.00	171,500	0.01
52 City Council	25,000	0.00	230,000	0.01
53 Ombudsperson	-	0.00	-	0.00
70 City Clerk	-	0.00	-	0.00
71 Election Commission	92,904	0.00	33,000	0.00
TOTAL LEGISLATIVE AGENCIES	\$ 472,904	0.01 %	\$ 607,500	0.02 %

**ESTIMATED REVENUE BY AGENCY
MAYOR'S 2006-2007 PROPOSED BUDGET / 2005-2006 BUDGET**

AGENCY	Mayor's 2006-2007 Proposed Budget		2005-2006 Budget	
	Amount	Percent of Total	Amount	Percent of Total
JUDICIAL AGENCY:				
60 36th District Court	\$ 24,155,602	0.66 %	\$ 23,353,304	0.83 %
OTHER AGENCIES:				
35 Non-Departmental	\$ 1,134,280,377	30.98 %	\$ 1,121,597,174	39.76 %
TOTAL GENERAL CITY AGENCIES	\$ 1,808,075,037	49.38 %	\$ 1,754,889,940	62.21 %
18 Debt Service Fund	\$ 77,232,484	2.11 %	\$ 62,934,661	2.23 %
ENTERPRISE AGENCIES:				
(TAX SUPPORTED)				
10 Airport	\$ 6,542,110	0.18 %	\$ 3,657,327	0.13 %
13 Buildings and Safety Engineering	36,025,228	0.98	36,606,545	1.30
20 Department of Transportation	160,769,059	4.39	170,162,883	6.03
72 Library	47,083,808	1.29	49,116,363	1.75
TOTAL TAX SUPPORTED ENTERPRISE AGENCIES	\$ 250,420,205	6.84 %	\$ 259,543,118	9.20 %
TOTAL TAX SUPPORTED AGENCIES	\$ 2,135,727,726	58.32 %	\$ 2,077,367,719	73.64 %
ENTERPRISE AGENCIES:				
(NONTAX SUPPORTED)				
34 Municipal Parking	\$ 47,466,152	1.30 %	\$ 47,420,410	1.68 %
41 D.W.S.D. - Water Supply	711,897,936	19.44	303,272,036	10.75
42 D.W.S.D. - Sewerage Disposal	766,749,616	20.94	392,948,116	13.93
TOTAL NONTAX SUPPORTED ENTERPRISE AGENCIES	\$ 1,526,113,704	41.68 %	\$ 743,640,562	26.36 %
GRAND TOTAL - ALL AGENCIES	\$ 3,661,841,430	100.00 %	\$ 2,821,008,281	100.00 %

- (A) The Mayor recommends that the functions of this department be transferred to the Recreation, Buildings and Safety Engineering, and Police Departments.
- (B) This department has been eliminated, and the functions have been outsourced to the Detroit Historical Society.
- (C) The Mayor recommends that the functions of this department be transferred to the Recreation Department.
- (D) This department has been eliminated, and the functions have been outsourced to the Detroit Zoological Society.
- (E) This department has been restored.
- (F) The Mayor recommends that this department be created in order to provide asset management service for the City, such as: maintaining City owned facilities, grounds and parks; buying and leasing vehicles for City departments; and procuring and managing office space for the City.